AGRICULTURAL STABILIZATION ACT

"We want to be able to guide the farmer . . . We do not want to lead him down a blind alley, but we want to make sure there is a market for his production, that it promises a better return and, if this seems probable, we will give him that advice and use the machinery of the Stabilization Act to protect him. This is new legislation. As we gain more experience in the operation of this Act, I have no doubt that some improvements can be made which will work towards the overall benefit of the farmer."

—Agriculture Minister Alvin Hamilton

THE instability of the prices he received for his farm produce has always been a source of worry and frustration to the Canadian farmer.

Fluctuating prices—from highs that excited him to lows that all but broke his heart—made it impossible for him to plan ahead. All too frequently top prices one year were followed by disastrous prices the next year for the same commodity. At best the farmer could only hope for a fair price for his produce whether it be hogs or honey, steers or soybeans, wheat or wool. He could hope . . . but time and again it didn't do much good.

It was with the idea of taking some of the ups and downs out of his prices and giving the farmer a more stable income that the Agricultural Stabilization Act was passed early in 1958.

Briefly, the Act established a flexible agricultural price support system that guaranteed farmers collectively a pre-fixed yearly price for many farm products. In other words, the average return to all farmers for a given commodity is guaranteed. But the amount that any individual farmer may receive will depend to some extent on his ability to produce a top quality product and his initiative in getting the best possible price for his product.

ACT MEETS SPECIFIC NEEDS OF FARMERS

The Agricultural Stabilization Act is tailored to the specific needs of Canadian farmers.

Its most important feature is that it provides a GUARANTEED FLOOR PRICE for any agricultural product for which the government decides price support is necessary.

To begin with, the Act assures support for nine key commodities at a price not less than 80 per cent of the preceding 10-year average market price for each of these commodities. These nine products are cattle, hogs and sheep; butter, cheese and eggs; and wheat, oats and barley grown outside the Canadian Wheat Board area.

Although the support price of a key commodity may not be less than 80 per cent of the preceding 10-year average market price, it may be, and in many cases actually is, much higher. Several mandatory commodities have been supported at prices well in excess of the 10-year average.

WIDE VARIETY OF FARM PRODUCTS COVERED

The Agricultural Stabilization Act also states clearly that ANY agricultural product not coming under the jurisdiction of the Canadian Wheat Board may be supported at the discretion of the government.

Since the Act came into force, a variety of farm products, other than the nine key commodities, have been supported at one time or another. They include honey, soybeans, sunflower seed, sugar beets, turkeys, apples, peaches, apricots, raspberries, asparagus, tomatoes, milk for manufacturing and skim milk powder.

SIMPLE FORMULA USED

The moving-average formula used to set support prices is a simple one that every farmer knows and understands. It starts with a base price, which is the average price paid at representative markets over the preceding 10-year period.

The level at which the cabinet decides to support the price of a farm commodity is generally figured as being 80 per cent of this base price. For the nine key commodities, it can be more, but never less than 80 per cent. This is known as the "prescribed" (or support) price.

Using this simple formula, a farmer knows that if he undertakes to produce any price-supported commodity and things do not turn out as well as he had hoped, he is not going to literally "lose his shirt". In other words, under the terms of the Agricultural Stabilization Act there is a price determined in advance for his product. This may not be all that he had hoped for, but it is a better deal than he had in the past.

For example, if the 10-year average market price of product "X" is 24 cents per pound, this figure would be considered the base price for calculating the level of support. If supported at 80 per cent of this base price, the support or prescribed price would be 19.2 cents per pound, 80 per cent of 24 cents.

HOW ACT IS ADMINISTERED

The Act is administered by the Agricultural Stabilization Board, comprising three members appointed by cabinet. Its headquarters is in Ottawa, but the Board may meet anywhere in Canada. Its decisions are subject to direction from the Governor in Council or the Minister of Agriculture. At its frequent meetings, the Board attempts to anticipate future needs and situations affecting prices in the agricultural field that will require price-supporting action.

Working in close co-operation with the Agricultural Stabilization Board is an advisory committee composed of a chairman and from six to nine farmers or representatives of farm organizations. The committee meets twice each year. Its job is to advise on all matters referred to it by the Minister of Agriculture or the Board relative to the stabilization of agricultural prices.

Every year the Board establishes the base price of each agricultural commodity and determines the grade, quality, variety, class or type of each product that it intends to stabilize under the Act.

To facilitate its work, the Board has at its disposal a revolving fund of $250 million.

THREE METHODS OF SUPPORT

The Agricultural Stabilization Board is authorized to use any one of three methods to put a support price on any agricultural product into effect. They are:

(1) Outright purchase of the product.
(2) Granting of a deficiency payment.
(3) Making a fixed payment to the producer.

The "outright purchase" method is normally used any time the trade cannot move a commodity at a price that will give the farmer a fair return for his production and marketing efforts. When this happens, the Board enters the market and buys some of the product at the previously determined price. The Board's purchases supplement the regular market demand and keep the price from falling below the support level. This method of stabilizing prices is beneficial to the farmer since the Board undertakes to buy whatever amount of product may be necessary to keep the price from falling below the prescribed or support level.

"Deficiency payments" have the advantage of keeping products moving into consumption. The deficiency payment method also removes the necessity for the government to become involved in buying, storing and reselling a product that it is supporting. This does not remove the incentive for the farmer to bargain to his own advantage. It simply means that he sells his commodity in the market at the best price he can get for it. The Board then calculates the national average market price which has been paid during a specific period and, if this price falls below the level of the support price, producers are paid the difference. All producers will receive the same deficiency payment regardless of the price each obtained for his product.

The third method, known as "fixed payment to the producer", usually applies where much of the crop is grown under contract. If the contract price is less than the support price, the government makes up the difference and pays it directly to the producer.

WHAT ARE ADVANTAGES OF ACT?

Planned as a continuing role of government—at least for some time to come—the Agricultural Stabilization Act ensures Canadian farmers a number of advantages described by economists as being "much greater than anything they have ever had before."

Here's what this legislation does:

(1) Provides a moving-average formula to serve as a basis for setting support prices. This formula deals

ROGER DUHAMEL, F.R.S.C., Queen's Printer and Controller of Stationery, Ottawa, 1961
Cat. No. A22-4361

with the immediate price situation and takes into account technological and other changes in the broad agricultural picture. Because the 10-year base period advances each year, the base price of a commodity is automatically adjusted to take account of any changes that have occurred because the prices of one year have been dropped while those of another year have been added. Further, it assures producers an early notice of the level of support and this enables them to plan their farming operations accordingly.

(2) Provides for a guaranteed yearly price to be set and to apply for one year in advance. Once these prices are set, the Act ensures that they remain in effect for the following 12 months or for any other period set by the Board and made known to the producer. This protects the farmer against sudden drops in prices, changes in consumer habits or loss of export markets.

(3) Provides for an advisory committee composed of farmers and representatives of farm organizations to advise the government as to what commodities should be supported, at what level, and by what means.

(4) Provides for a mandatory floor at all times on nine key commodities. This is most important to the farmer because the cash income from these key commodities represents about 65 per cent of the total cash income from farming other than that from western cereal grains. The fact that the Act must support the prices of these nine commodities at all times exerts a stabilizing influence on Canadian agriculture.

PRODUCERS AND CONSUMERS BENEFIT

For many years it has been obvious that if the farmer had a sound average income, the consumer would get a break too.

The fact that the Agricultural Stabilization Board has control over the type and quality of the goods it supports tends to give the housewife a more varied supply of top quality farm products for her table.

In short, when the farmer gets a fair return for his commodities, the housewife can buy hers at reasonably stable prices all year round.

PAYMENTS ON NATIONAL BASIS

From time to time since the Agricultural Stabilization Act was passed, the Board has considered making deficiency payments on a regional rather than on a national basis. But such a scheme has its drawbacks.

For example, to provide deficiency payments on a provincial basis, it would be necessary to calculate two separate prices: a prescribed or support price, and a 10-year average market price for each province.

Any deficiency payment made would, therefore, be the difference between the average annual market price received by farmers of the province and the prescribed or support price for the particular province or region.

It can be seen, then, that it would not be feasible to use a provincial or regional market price along with a support price for the nation as a whole. Such a combination would result in producers in all provinces or regions getting the same total return per unit despite wide differences in costs of production in the different regions. Also, by providing special encouragement to production in high-cost areas, it would prevent the fullest possible gains in productive efficiency from being realized.

Another point that had to be considered was the fact that the entire country would have to be split up into a number of regions. This would cause confusion among producers living close to the dividing line between regions when it came to figuring out payments due since some might live in one region and market in another. Deficiency payments on a regional rather than a national basis is a phase of the support program that is still being studied in the light of experience and changing markets.

The government also had sound reasons for deciding that the deficiency payment method of supporting prices under the Agricultural Stabilization Act would be carried out on an annual rather than a seasonal basis.

The chief objection to a seasonal-type of administration was that, instead of encouraging farmers to produce and market more evenly throughout the year, such a system could tend to encourage a more uneven type of production. This would cause the seasonal variations in market prices to become even wider than at present and lead to large-scale and expensive storage.

SUPPORT LEVELS INVOLVE SEVERAL FACTORS

Several factors are considered by the Agricultural Stabilization Board before it arrives at an appropriate level at which to support the price of a farm product.

An important consideration is the cost of producing various commodities. Here the Act states definitely that in setting prices the Governor in Council shall be guided by the estimated cost of production "and such other factors as the Governor in Council considers to be relevant."

What are these relevant factors? There are several, including the need for maintaining an appropriate balance between different commodities, and determining the probable impact of stabilization on the future production of these commodities. These considerations must be carefully made in order to avoid the creation of unmanageable surpluses which, if permitted to pile up, would undermine the entire price support program.

Because only a few countries allow subsidized food products to enter, it is virtually impossible for the government to find export markets for any large surpluses. This means, then, that the Board can maintain relatively good prices for supported commodities only if production is kept roughly in balance with consumption in Canada.

ACT LESSENS FINANCIAL RISK

An essential part of the national agricultural program, the Agricultural Stabilization Act has helped remove much of the financial risk that has always been associated with farming in Canada.

Application of the Act to a wide variety of farm products, and especially to the nine mandatory commodities, exerts a considerable stabilizing influence on agriculture.

Using only the dairy industry as an example, L. W. Pearsall, chairman of the Agricultural Stabilization Board, summed up the advantages of price support in Canada as follows:

"If there were no price support and no import controls, the net annual income of the dairy industry would probably be $100 million a year less than it is. This is the true measure of the assistance provided to the dairy industry."

It is more than that. It is, in effect, the true measure of assistance provided each year to thousands and thousands of farmers in this country.

From 1958, when the Agriculture Stabilization Act was passed, until March 31, 1961, $126,119,153 was spent in the support of agricultural commodities. This compared with $100,073,260 spent from 1946, when the old Agricultural Prices Support Act was passed, until it was replaced in 1958.

"STABLE—Firmly fixed or established, not easily to be moved or changed or destroyed . . ."

—The Concise Oxford Dictionary

This pamphlet was prepared by the Information Division, Canada Department of Agriculture, Ottawa, Ontario

August 1961

AGRICULTURAL STABILIZATION ACT

Price Support for the Farmer

CANADA DEPARTMENT OF AGRICULTURE